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THE BRANDING OF SMALL ECONOMIES IN THE GLOBAL WORLD

Dragana Milenković
University of Priština, Faculty of Economics in Kosovska Mitrovica, Serbia
dragana.milenkovic@pr.ac.rs

Tanja Vujović
University of Priština, Faculty of Economics in Kosovska Mitrovica, Serbia
tanja.vujovic@pr.ac.rs

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Abstract: *The process of globalization is a logical process of internationalization, caused by deregulation and liberalization, as well as the development of information and communication technologies. To perform an isolationist policy today is completely absurd. Therefore, the main goal of each national economy is to be engaged in international trade while retaining sovereignty and achieving sustainable development, and this is only possible if we realize that not all economic activities are qualitatively the same as the drivers of economic development, and that globalization and free trade can create an automatic economic harmony. Countries that specialize in the export of raw materials will sooner or later experience the opposite effect from economies of scale, namely declining yields. Sustainable development today is a kind of monopoly on the production of advanced goods and services, in which rich countries experience one explosion of productivity for another. In the first part of the paper, we analyze the effects that abstract theories of classical liberal economies have on the poor countries, as well as the neoliberal policies that the World Bank, the International Monetary Fund and the World Trade Organization today apply to developing countries. In the second part of the paper, we analyze examples of countries whose economic prosperity is the result of a smart and pragmatic mix of market incentives and governance. In the third part of the paper we give recommendations for the new development and trade policy of Serbia. In the last part of the paper, we point to the importance of branding as a factor in the export competitiveness of the company.*

Key words: *free trade, developing countries, neoliberalism, innovation, trade policy, state regulation, branding*

INTRODUCTION

The neoliberal economy is the modernized version of the liberal economy of Adam Smith, David Ricardo and their followers. It appeared for the first time during the 1960s, and by the 1980s it became the dominant economic philosophy. Liberal economists from the 18th and 19th century believed that unregulated competition on the free market was the best way of organizing the economy, because it forces the competitors to do business as efficiently as possible. State interventions were deemed harmful because they minimize pressure from the competition by limiting the introduction of new competitors, whether it is by limiting imports, or by creating monopolies. In Adam Smith's theory, production disappears, because he reduces it and trade to "work". In 1817. David Ricardo continued in Smith's footsteps, but with an even more abstract theory based on "work" - a quantity without any qualities – as a measure of value. What both theories lack is new knowledge, innovation, entrepreneurship, economies of scale and synergistic/clustering effects. When the world economy is in that way reduced to a system where everyone exchanges undefined "work", without technology, without economies of scale, and without synergistic effects – the work that everyone is equally skillful in – was the open road to making free trade equally useful for everyone. The history of economic policy (what people did in the real world) does not exist as an academic discipline, unlike the history of economic theories (what theoreticians claimed needed to be done). Namely, highly developed countries, during their long history of economic growth were not applying economic theories and policies that are currently being forced upon developing countries.

2 FREE TRADE AND INEQUALITY IN DEVELOPMENT

The problem of social justice in some way boils down to the question of whether or not there exist some aspects of society (including "global society") based on which we can determine if those societies are just, if justice is present in them, including social justice. The measure of equality and justice should be on the basis of the distribution of the products of economic growth and technical potential (Marković, 2015, page 490). According to the theory of marginal productivity of factors of production, if the market of factors of production is perfectly competitive, every factor of production should receive income proportional to its marginal productivity, or a contribution to the created social product including: work - wage, capital – profit, land - rent. The distribution is fair, because every owner of the factors of production gains an income which is equal to the contribution of the given factor to the total social product. The proponents of the free market believe in an automatic balance of the market which according to Adam Smith usually "leads to the best outcome by the invisible hand of the market", routinely wiping markets, producing what people truly want, ensuring full employment, and normalizing the balance of trade (Dunkley, 2005, page 25).

That being said, the distribution of the market is a long way away from what would be considered rewards based on performance. The abilities of individuals differ, so even the perfect market mechanism could not secure every individual a life with dignity. The sources of inequality in the distribution of income are diverse: the differences in ability of individuals, differences in the work they put in, the differences in demand of workers of certain professions, the differences in investments into human capital, different types of discrimination (by gender, skin color, faith, etc.), the difference in earnings based on ownership, etc. The state can impact the distribution of income indirectly as well, by regulating taxes, subventions and certain categories of state expenses (the so-called hidden distribution). If we observe the problem of inequality on an international level, the problem of inequality becomes even more complex. Namely, before the Industrial Revolution even began, the world was relatively equal in terms of income. More precisely, it was equally poor. The modern economic growth was enabled by a combination of factors, and England was the first place where that combination took hold. If we recall Nikolai Condratiev, it is clear that since the Industrial Revolution economic growth was being driven by the leaps of large-scale technological changes (Milenković D., Milenković I., 2017).

Ricardo's theory is absolutely correct – under its tight assumptions. His theory states that the countries specialize more effectively for the products which they are better at producing, if the existing level of technology is given. This cannot be argued against. His theory, however, breaks down when a country wants to conquer new technology which would allow it to produce more complex products, products which other countries can already produce, for example: when a country wants to develop. Time and money is required to adopt new technology, so the less technologically advanced producers require a period of protection from international competition while they learn. That kind of protection is expensive, because the state misses out on an opportunity to import cheaper, higher-quality and products from abroad. However, it is the price that must be paid if a country wants to develop more advanced industrial sectors. Ricardo's theory is, if approached from that perspective, acceptable by the ones that want to accept the status quo, but not the ones that want to change it (Jun Chang H., 2016, page 79).

There have been entire systems of foreign trade policy based on this theory. The use of the conceptual framework of this theory has led to an underdevelopment of an entire part of the world. "If Ricardo was right, the benefits of world trade would be more or less equally enjoyed by everyone. In fact, the selfish belief that specialization would be for the greater good was based on an imagination of fair competition" (Tolpher, 1983, page 108).

Ricardo's theory of comparative advantages, which seems to the benefit all of the participants of foreign trade, has helped Great Britain to start a prosperous era of free trade in the nineteenth century. However, in today's world, in which the old rules cannot be applied anymore, Ricardo's theory is no longer valid: there are numerous developing countries that rely on comparative advantages (oil money, cheap labor, etc.) and take part in international trade in such a way that they still remain poor. However, today liberalism exists as a principle and proposes more intense removal of constraints in foreign trade in order to accomplish a fairer distribution of labor. “Laisser fair, laisser passer” has made a reappearance as a part of so-called Reaganomics and Thatcherism. “The IMF and the World Bank became the new missionary institutions through which these ideas are being pushed towards unwilling and poor countries which were often in great need of loads and donations” (Stiglitc, 2002, page 26). Today, developed countries apply a sequence of measures in international trade ranging from mercantilism to free trade. However, none of the stand at positions of perfect competition, free trade and entrepreneurship, nor is that system used in practice. Joseph Schumpeter believed that the economy was suffering from the Ricardian voice. States with specialize for the export and import of natural resources will sooner or later come to an opposite effect from economies of scale, namely decreasing yields. As specialization for natural resources increases – without an alternative market in industrial and service sectors – will therefore see an opposite effect from what Bill Gates is experiencing: the more they increase production, the more that the cost of production of every additional unit increases. Globalization, as it has happened in the world in the last 20 years, has caused a shortage of industry in many poor countries, and today they are back in a stadium where the law of diminishing yields prevails. Sustainable development is becoming a sort of monopoly for the production of advanced goods and services, in which rich countries are experiencing one explosion of productivity after another (Milenković D., Milenković I., Radisavljević B., 2017, page 700).

3 THE COMBINATION OF LIBERALIZATION OF THE MARKET AND STATE INTERVENTION – THE KEY TO SUCCESS

Escaping poverty is a crucial problem of many countries. In his book “Bad samaritans: rich countries, crippling policies and the threat to the developing world”, the South Korean economist and Camebridge professor Ha-Jun Chang attmepts to explain why South Korea has been able to achieve such spectacular growth and social transformation in the last four and a half decades. South Korea has gone from one of the poorest countries in the world to the same GDP per capita as Portugal or Slovenia. The country whose main exports were wolfram ore, fish, and wigs made out of human hair, became a world superpower in the areas of exporting modern mobile phones, flat-screen TVs, and similar products that people from around the world desire. Most economists believe that South Korea succeded because it followed the dictates of the free market. It accepted the principles of low inflation, small government, private entrepreneurship, free market, and the welcoming of foreign investments with open arms. The neoliberal establishment (the IMF, the World Bank, and the World Trade Organization) would like us to believe that South Korea, during the years of miraculous economic growth, during the 60s and 80s, has followed a strategy based on the neoliberal doctrine. The reality, however, is the complete opposite. During these years Korea has actually nurtured some new industries which the government chose in consultation with the private sector, through the control of customs, subventions, and other forms of government support, up until those industries were strong enough to withstand the international competition. The government was the owner of all of the banks, so it could manipulate the assets of business - loans. Also, the Korean Government has strictly controlled foreign investments, welcoming them with open arms in certain sectors, while simultaneously completely banning them in others, depending on the national growth plan. The Korean economic miracle was the result of a smart and pragmatic mixture of the revitalization of the market and state control. The Korean government did not ban the free market, as was the case with communist countries. However, it did not have blind faith in the free market. Even though it took the market seriously, the Korean strategy recognized that the laws of the market were often in need of regulation with state intervention. Not all countries succeeded with the help of protectionism and subventions, but only few succeeded without them (Jun Chang, H., 2016, page 37). Taiwan applied a strategy very similar to the Korean one, although it used state corporations more extensively, while simultaneously being friendlier with foreign investments. Singapore accepted free trade, heavily relying on foreign investments, guiding them to the exact branched in thought strategic, but not accepting other aspects of the neoliberal ideology. The recent successes of China and India are also examples of the strategic, and not unconditional integration into the global economy. The example of Mexico, which would have been chosen for the best actor, if somehow a movie about free trade would have been made, says a lot. If there is a developing country that should succeed because of free trade, it would be Mexico. It borders with the biggest market in the world (the United States of America) and in 1995 it had signed a free trade agreement with the USA (the North American free-trade agreement – NAFTA). Also Mexico has numerous workers in the USA that provide numerous important, non-formal working relations, and, unlike many other developing countries, has a decent amount of qualified workers, capable managers, and relatively developed infrastructure (roads, railways, etc.). The widespread adoption of Mexican trade liberalization in the 1980s and 1990s has wiped out entire business sectors that were in development and were steadily developed during the industrialization accomplished by Import substitution industrialization. Because of that, the market growth has declined, the unemployment rate has risen, and salaries were reduced (better-paid jobs in complex industrial production were cut). Even the Mexican agricultural production was heavily effected by rival American highly-subsidised products. From 2001 to 2005, Mexican performance it terms of growth rate was miserable. The annual GDP growth rate per capita was 0.3%, which was an insignificant growth of just 1.7% in total during five years. Contrast that to 1982 to 1995, when Mexico applied the "wrong" strategy of economic growth, based on the substitution of imports, its annual GDP growth rate per capita was 3.1% (Jun Chang, H., 2016, page 109). Mexico is an example of a failure of very early and very drastic trade liberalization, but there are more examples of such failures. When the Ivory Coast reduced the import tax by 40% in 1986, its economic sectors including the chemical and textile industry, the footwear industry, and the automotive industry basically collapsed and unemployment went sky-high. In Zimbabwe, after the trade liberalization during the 1990s, the unemployment rate went from 10 to 20%. The hope of the resources (capital and workforce), left behind after the corporations that went bankrupt in the midst of trade liberalization, being quickly absorbed by new business ventures was not fulfilled, at least not in necessary amounts. The importance of international trade for economic growth is so high that it cannot be overrated. However, free trade is not the best route for economic development. Trade helps the economic growth only when the state uses the combination of protectionism and trade, constantly adapting to its changing needs and capacities. Trade is simply too important for economic growth to be left to the proponents of free trade.

4 RECCOMENDATIONS FOR A NEW DEVELOPMENT MODEL FOR SERBIA BASED ON EXPORTS

Between 2001 and 2008, the GDP of Serbia has increased at a rate of 5.4% per year, which was not enough to reach a level of production from 1989. According to the report of the EBRD, the appropriate gap for out country was 30%, while developing countries achieved more than 40% on average. Even though the economic growth of Serbia was relatively high, it was primarily based on the growth of three sectors: financial services, large and small-scale trade, and telecommunications. These three sectors are responsible for about three quarters of the total economic growth from 2002 to 2008. These are sectors belong to untradeable parts of the economy (their products cannot be exported), i.e. they rely on the increase in domestic demand. Namely, Serbia, starting in 2000, has developed a model of economic growth in which the increase in domestic demand and spending significantly outpaced the growth of GDP (the increase in domestic demand was 7.5%, while the GDP was 5.4%). As the rise of demand was not followed by the necessary expansion of the economy, the economic growth was followed by a high trade deficit and a deficit of the current account. The high trade deficit and high deficit of the current account was financed by the flow of direct foreign investments, the remittance of the emigrants, and the increase of donor help.

The fact that comparative advantages of the Serbian economy is achieved primarily by the primary products and the products of the lower stages of production. The exports based on product from these sector groups (resources and radio-intensive industry) are never a good basis of the long-term growth of exports and economic growth and development.

This country has the potential for development of a large number of industries based on knowledge and selling software that can be a lot more exploited. There are numerous examples of small companies in Serbia selling "knowledge" that have strategic contracts with large and powerful companies in the world. Serbia would have to apply much more active policies of stimulation of research and development, but in coordination with the reform of the education system, because human capital is the key factor of long-term economic growth.

It is no surprise that the last decade was marked by the terms knowledge economy and learning organization. The successful companies are the ones that have the ability to quickly respond the requests of consumers, to create new markets and new products, to define technological standards (Mitić, S., 2014, page 114). Foreign direct investments can help economic growth, but only if they are a part of a long-term strategy of economic development. Sector policies should be shaped in such a way that foreign direct investments do not cripple domestic producers, which might have a high development potential in the long-term, while simultaneously securing that advanced technologies and managerial skills which foreign companies possess are in the largest possible part transferred to domestic companies. Some countries, such as Singapore and Ireland, can succeed and have succeeded by attracting foreign capital, especially foreign direct investments. However, more countries will succeed, and more of them have succeeded by regulating foreign investments, including foreign direct investments (Jun Chang, H., 2016, page 155). The opposers of globalization believe that the impact of foreign direct investments are helpful and meaningful, but that they have to be compared with all the negative effects of successful companies, fired employees, and generated problems (Stamenović M., Gunal B., Dragaš B., 2017, page 83). The fact that nations economically prosper or crumble based on whether or not they have institutions that stimulate economic growth (inclusive institutions) or undermine it (extractive institutions). Some of the main extractive institutions in our economic system are the taxes and contributions. They are so unreasonably high that doing business legally is becoming less and less profitable. The strategy of economic growth in Serbia, named the "policy of high subvention level", has a result of, not economic growth, but the opposite, the weakening of domestic production, and the increase in unemployment. Since investors try to avoid investing in Serbia (unreasonable administrative and tax obstacles), then the government of Serbia gains monetary support to avoid or subvert them - 9000 euros per worker, tax exemptions, a fixed price of water, electricity, and gas, cheap land, etc. (Pavlović D., 2016, page 44). That is how foreign investors are favored over domestic ones, which is the opposite of what South Korea, Taiwan, and other now successful economies did.

5 BRANDING AS A FUNCTION OF EXPORT COMPETITIVENESS

Keller defines a brand as a product or service with additional dimensions that separate them from other products or services designed for fulfilling the same needs (Mitić, S., 2014, page 140). The branding of a country effects three things: the place of a country in golbal politics, the influx of foreign investments, and on tourism. Everyone wants to immigrate into a country with a good image: diplomats, investors, and tourists. Simply put, if a country wants to have a better brand, it should strive to be better. Finland invented Nokia phones, Estonia invented Skype. South Korea created Samsung, and the charming rapper Psy did a lot for the foreign diplomacy and brand of South Korea. Now we can finally distinguish it from North Korea. And what is Serbia doing now? It should be looking up to, lets say, Germany. The decades of anti-campaigns, two World Wars, nazism, concentration camps, and yet, by all branding indexes Germany is the most respected European country. Why? Because they make some of the best products in the world. Cars, Boss suits, Siemens appliances, the best highway network in the world. Germans did not come into the battle with difficult historic stories about themselves, nor did they deny them. They accepted them, used Marshall's plan for the reconstruction of Europe, and soon after the Second World War began making products they are still respected for today. That is the attitude we need to embrace. They, just like us, had a famous tennis player, Boris Becker, and the famous Octoberfest, but they did not stop there. Novak Djoković and Exit and certainly increased the global visibility of Serbia, but we still have to find the main reasons why people would come to Serbia. Maybe some of those people still think that we are aggressive or warmongering, but it is our responsibility to create a different image of Serbia. It is not worth fighting a negative campaign from the past, that is a waste of time and its complex of lower value. We should bring out the best of us and offer it to the world. We should not export our fruit and vegetables as natural resources, but as finished products made out of them. We cannot put a "Made in Serbia" label on raw raspberries, but we can put it on raspberry jam. Just like we can put it on Fiat cars we make and export. Just like on world-class software. The online game-development company Nordeus has proved that to us. And we need to work on core infrastructure as well – to fix our education system, finish our highways, strengthen tourism. The most important thing is to accept a strategy of national branding is, in fact, a strategy of national development. There is no successful national brand if there is no success to back it up. We need to select the elements of reality in which we are exceptional, and to relentlessly broadcast that image to the world. (Popović, A., 2013.)

CONCLUSION

The market is certainly not a perfect mechanism that can secure the optimal allocation of resources, full employment, and the balance of payment. If there is a tendency towards growth and income, then trade is one of the ways to embrace economic growth. However, free trade is not the best path for economic growth, judging by the experiences of many countries. The structure of exports – raw materials, raw materials, food – point to the conclusion that Serbia's exports are similar to those of poor countries. The Serbian economy has a lot more natural and physical resources than capital resources, so it is classified, in terms of factor intensity, as a country which is specialized for the production of products that contain natural inputs (physical work and natural resources) on large scales, and production inputs (human resources and technology) on small scales. The shift of the structure of production and exports should be one of the main priorities of Serbia. While today's dominant sectors in the structure of exports are: financial services, large and small scale trade, and transport and telecommunications, a necessary change is required with the tradable goods sector, meaning the goods that can be exported and that will be a product of high technology, because that is the only way to survive on the global market. Today's theory of globalization supposes that all of the different economic sectors are qualitatively equal as the means of economic growth, therefore globalization and free trade will create automatic economic harmony. Such an abstract theory misses out on factors that will, in reality, make some countries richer and some poorer, with the current globalization taking place. For better positioning on the global marketplace, countries and corporations have to rely on non-material resources, and one of the most important ones is the brand. The brand, as a non-material resource of corporations, is an important element of strategy and a form of competitive differentiation.

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SUMMARY

How to get involved in the international market, while preserving national identity and implementing optimal development policy, is a crucial issue for developing economies. While supporters of liberalism have advocated the view that "there is no alternative", many countries' experiences prove that the alternative exists. It is in the combination of market mechanism and regulation, strategic attraction of foreign direct investments and protection of the developing industry. Countries such as South Korea, Thailand, Singapore, India, and Chine are example of countries that succeeded in their economic growth thanks to the combination of market revitalization and state control. On the other hand, Mexico and the Ivory Coast are examples of the failures of too early and too drastic trade liberalization. Trade is simply too important for economic growth to be left to the proponents of free trade. Since 2000, Serbia has actively maintained transitional reforms, relying on the principles of neoliberalism. Foreign direct investments are mostly attracted to the untradeable goods sector, which has impacted the growth of the current account deficit. The new strategy of Serbia's economic growth should be focused on the sectors that produce goods and services that can be exported. National products branding can play an important role in the positioning of one national economy and its products onto the world market.